

Commissioner of Income Tax, Madras v. Ajax Products Ltd. through its Liquidator

Civil Appeal No. 1098 of 1963

[1965] 1 SCR 700 | 1964-10-08

Balancing charge after cessation: the statutory fiction did not tax surplus on assets sold in a previous year during which no business was carried on.

Indian Income Tax Act, 1922: section 10(2)(vii), second proviso | Indian Income Tax Act, 1922: section 66

3-judge bench | K. Subba Rao, J. | J. C. Shah, J. | S. M. Sikri, J.

Assessment years: 1956-57

Limited legal fiction

The Court refused to deem business and user into existence beyond the purpose expressed by the proviso.

No business in the previous year

The sale occurred in 1955 after complete closure in December 1954.

01 FACTS OF THE CASE

Ajax Products resolved to enter voluntary liquidation in October 1954 and closed its manufacturing business by mid-December. In March 1955 the liquidator sold land, buildings, plant and machinery above written-down value. Revenue invoked the second proviso to section 10(2)(vii) for assessment year 1956-57 and the Tribunal also re-estimated the building value without supporting material.

Source: [Case identity, facts and procedural history](#)

02 DISCUSSION BY THE HON'BLE COURT

The Court treated the proviso's deemed-profit rule as a limited fiction. Earlier law required business in at least part of the previous year, use of the asset in that business and sale while business continued; the 1949 amendment removed only the last condition. It did not eliminate the need for business activity in the relevant previous year. The Tribunal's unsupported valuation finding was also open to correction on reference because it rested on no material.

Source: [Court's reasoning and statutory analysis](#)

03 JUDICIAL DECISION

Revenue's appeal was dismissed with costs. The surplus was not taxable under the second proviso because no business was carried on during any part of calendar year 1955, and the High Court was right to reject the unsupported building valuation.

Source: [Holding and operative order](#)

04 OUTCOME / IN WHOSE FAVOUR

In favour of the assessee/respondent. The statutory balancing-charge fiction did not reach the post-closure sale on these facts.

Source: [Operative result](#)

05 AKHB REVIEW POINT

AKHB analysis: when applying a deeming provision to asset disposal, identify every statutory precondition and the precise previous year. Do not extend a fiction beyond its expressed purpose, and preserve valuation evidence capable of supporting any allocation among land, buildings and machinery.

Source: [Primary reasoning underlying the AKHB analysis](#)

SOURCE & VERIFICATION

[Supreme Court Reports scan - public eSCR mirror](#)

Full 12-page SCR report read and checked. The editorial headnote was distinguished from the judgment text and operative order.

[Open cited source rendition](#)

Exact source bytes, SHA-256 and 12-page count match catalogue asset 1965_1_700_711; the full extracted report and operative pages were reviewed.

The source verifies Civil Appeal No. 1098 of 1963, the stated bench, issues, reasoning and operative result.

No published AKHB note or archived reviewed record with this source hash, case identity and operative decision was found.

STATUTORY SCOPE

The judgment concerns the 1922 Act balancing-charge fiction. It is not a statement of current block-of-assets or capital-gains treatment.

LATER TREATMENT

Source checked 2026-10-10. Later judicial treatment and current statutory applicability have not been comprehensively checked; no current-law or citator clearance is represented.

AI DISCLOSURE

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